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Could've Been Worse

By PAUL KRUGMAN

It has not been a good year for economic policy, at home or abroad. The best you can say is that things could have been worse.

The bad news was legion. The U.S. went into recession, and the collapse of Enron raised questions not only about our economy but about the state of business ethics. We squandered our hard-won budget surplus, and with it our best chance to do something about the fiscal burdens of an aging population, on an ill-conceived tax cut. Overseas, Argentina melted down — something I had long predicted, but the actual events were still shocking. And Japan's prime minister, Junichiro Koizumi, looks less like Franklin Roosevelt and more like Herbert Hoover every day.

The good news all takes the form of things that didn't happen.

The good news about the U.S. economy is that it fell into recession, but it didn't fall off a cliff. Most of the credit probably goes to the dogged optimism of American consumers, but the Fed's dramatic interest rate cuts helped keep housing strong even as business investment plunged. The pain is far from over — unemployment looks set to keep on rising, even if the G.D.P. starts growing again — but our worst fears have not been realized.

It was good news that the World Trade Organization didn't collapse. Trade is one area in which the Bush administration is right and the Democrats are wrong; but there was a real risk that the 1999 debacle in Seattle, where an attempt to start a new round of negotiations collapsed in disarray, would be repeated this year. In fact the meeting, in Doha, Qatar, went off fairly well. Alas, I cannot take any satisfaction in the passage of "fast track" trade authority: as Lael Brainard pointed out on this page yesterday, the Bush administration purchased fast-track at the cost of appalling concessions to special interests, concessions that hurt the very countries free trade is supposed to help.

It was good news when California's energy crisis evaporated, thanks to price controls and conservation. The Bush administration was all set to use the crisis to push through an environmentally destructive program of corporate welfare, which had nothing to do with the actual problem; the sudden surplus of power put that plan on hold.

Really big good news: To my immense relief, the absurdity of Social Security privatization became manifest before the system had been dismantled. I had been really worried about that; the Bush administration's claim that private accounts would improve rather than worsen the system's finances made no sense at all, yet it got a free pass from most commentators.

Fortunately, the commission that was supposed to propose a detailed plan came to a farcical end. Its final report declared that private accounts would indeed strengthen Social Security, if they were accompanied by sharp benefit cuts and huge financial injections from unspecified sources. Yes, and eating a jelly doughnut every morning will help you lose weight, if you also

cut back sharply on other foods and do a lot of exercise; otherwise the doughnuts will make you fatter. Again, aren't you glad the absurdity of the Bush proposal came to light before \$1 trillion was diverted into private accounts?

And one more thing to be grateful for: We didn't get a stimulus bill. That doesn't sound like good news, unless you look at the content of the bills that were actually on the table: huge further tax breaks for corporations and the wealthy, doing little for the economy but further worsening our already dreary fiscal outlook.

But what about the year ahead?

For me the gloomiest moment was probably around mid-October. That's when the straight economics looked worst — when the impact of Sept. 11 on confidence seemed all too likely to turn the recession into something truly nasty. It was also the moment when some politicians decided to abandon all restraint, and throw their weight behind huge special-interest giveaways. But guess what? Confidence didn't collapse, and the special interests didn't get what they wanted. It turns out that there are still decent politicians, in both parties, and so far they have had enough power — just — to prevent the worst.

In short, things could have been worse, and there is still reason to hope. Happy New Year.

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